

C & M COMMUNITY SCHOOL DISTRICT
MASSENA, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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C & M COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Galen Becker	President	2007
Jennifer Holste	Vice President	2005
Todd McKee	Board Member	2006
Rob Ticknor	Board Member	2006
Brian Bower	Board Member	2005
<u>Board of Education</u>		
(After September 2005 Election)		
Galen Becker	President	2007
Jennifer Holste	Vice President	2008
Todd McKee	Board Member	2006
Rob Ticknor	Board Member	2006
Gary Dinkla	Board Member	2008
<u>School Officials</u>		
James Simmelink	Superintendent	2006
Linda Edwards	District Secretary/Treasurer	2006
Rick Franck	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
C & M Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of C & M Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of C & M Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2006 on our consideration of C & M Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 14 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise C & M Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

C & M Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$1,986,840 in fiscal 2005 to \$2,005,976 in fiscal 2006, while General Fund expenditures decreased from \$2,105,056 in fiscal 2005 to \$2,093,067 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$117,247 in fiscal 2005 to \$31,521 in fiscal 2006, a 73 percent decrease from the prior year.
- The addition of the SILO tax in the previous year increased the amount available for PPEL fund purchases. No new buses were purchased during the 2006 fiscal year. The PPEL/SILO funds revenues totaled \$236,564 for FY2006.
- Significant savings were made when administrators were cut from 2 full time administrators to 1.2 administrators. In FY 2007, the district will employ only one administrator.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

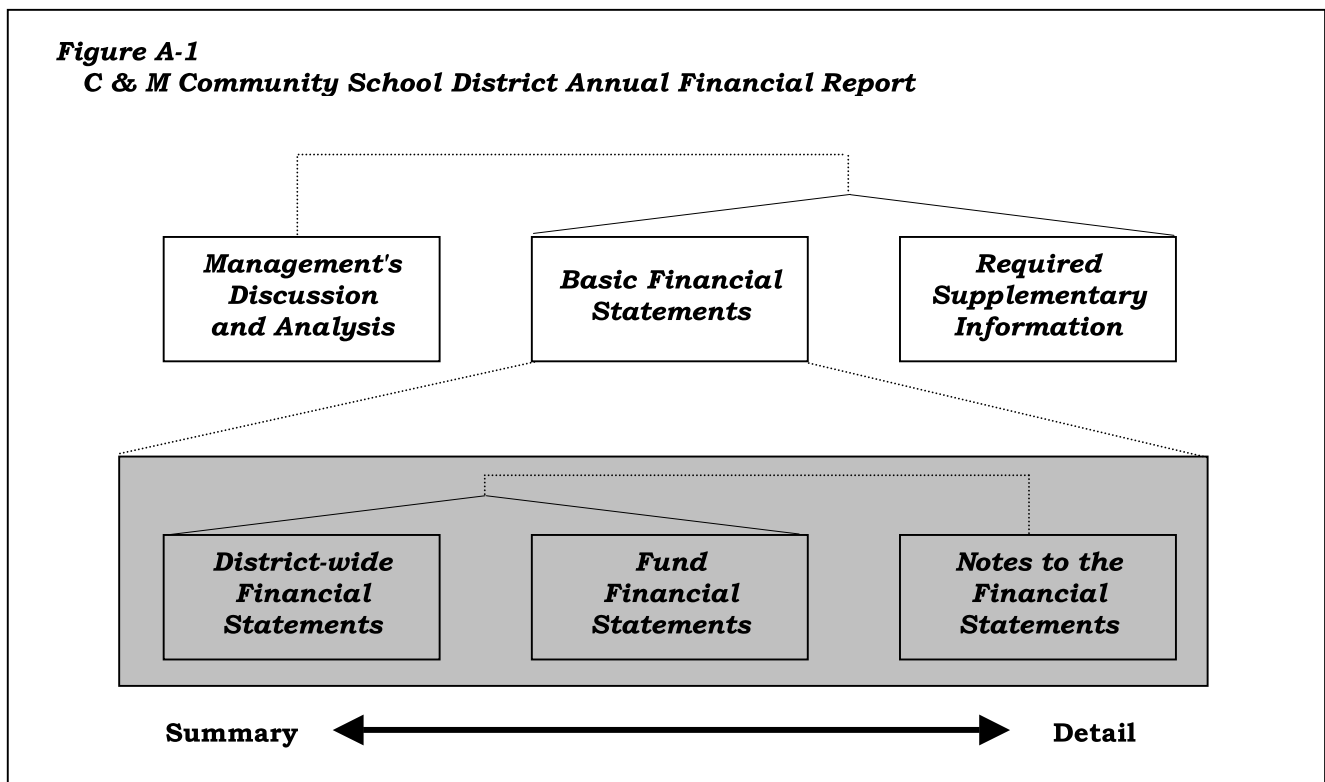


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employees' purchases for the Hearts and Flowers fund and for the CMEA (Education Association) fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$1,683,429	\$1,292,538	\$1,429	\$2,902	\$1,684,858	\$1,295,440	30.1%
Capital assets	\$1,358,293	\$1,408,533	\$3,414	\$4,679	\$1,361,707	\$1,413,212	-3.6%
Total Assets	\$3,041,722	\$2,701,071	\$4,843	\$7,581	\$3,046,565	\$2,708,652	12.5%
Long-term obligations	\$10,233	\$17,515	0	0	\$10,233	\$17,515	-41.6%
Other obligations	\$1,220,029	\$894,317	0	0	\$1,220,029	\$894,317	36.4%
Total Liabilities	\$1,230,262	\$911,832	0	0	\$1,230,262	\$911,832	34.9%
Net assets:							
Invested in capital assets, net of related debt	\$1,358,293	\$1,408,533	\$3,414	\$4,679	\$1,361,707	\$1,413,212	-3.8%
Restricted	\$366,407	\$213,356	0	0	\$366,407	\$213,356	71.7%
Unrestricted	\$86,760	\$167,350	\$1,429	\$2,902	\$88,189	\$170,252	-47.0%
Total Net Assets	\$1,811,460	\$1,789,239	\$4,843	\$7,581	\$1,816,303	\$1,796,820	1.1%

Assets increased by 12.5% and liabilities increased by 34.9% due in part to the addition of Restricted ISCAP Assets and Investments.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2006, compared to 2005.

**Figure A-4
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30	June 30	June 30	June 30	June 30	June 30	
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues:							
Program revenues:							
Charges for service and sales	\$269,536	\$268,911	\$47,313	\$43,048	316,849	\$311,959	1.6%
Operating grants, contributions, and restricted interest	266,435	277,719	45,515	46,315	311,950	\$324,034	-3.7%
Capital grants, contributions and restricted interest	0	0	0	0	0	0	0.0%
General revenues:							
Property tax	819,277	790,113	0	0	819,277	790,113	3.7%
Unrestricted state grants	736,849	758,959	0	0	736,849	758,959	-2.9%
Unrestricted investment earnings	19,842	9,339	39	44	19,881	9,383	111.9%
Other	236,702	123,195	0	0	236,702	123,195	92.1%
Total Assets	\$2,348,641	\$2,228,236	\$92,867	\$89,407	\$2,441,508	\$2,317,643	5.3%
Program expenses:							
Governmental activities							
Instruction	1,476,538	1,440,265	0	0	1,476,538	1,440,265	2.5%
Support services	697,050	761,698	0	0	697,050	761,698	-8.5%
Non-instructional programs	7,324	2,287	95,605	88,080	102,929	90,367	13.9%
Other expenses	145,508	113,388	0	0	145,508	113,388	28.3%
Total Liabilities	\$2,326,420	\$2,317,638	\$95,605	\$88,080	\$2,422,025	\$2,405,718	0.7%
Change in net assets	22,221	-89,402	-2,738	1,327	19,483	-88,075	122.1%

In 2006, property tax and unrestricted state grants account for 66 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services which account for 93.4 percent of the total governmental activities expenses.

Governmental Activities

Revenues for governmental activities were \$2,348,641 and expenses were \$2,326,420.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5
Total and Net Cost of Governmental Activities**

	Total Cost of Services	Net Cost of Services
Instruction	\$1,476,538	\$1,010,360
Support Services	\$697,050	\$693,095
Non-instructional programs	\$7,324	\$7,324
Other expenses	\$145,508	\$79,670
Totals	\$2,326,420	\$1,790,449

- The cost financed by users of the District's programs was \$269,536.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$266,435.
- The net cost of governmental activities was financed with \$819,277 in property tax, \$736,849 in state foundation aid, \$60,484 in income surtax, \$124,236 in local option taxes, \$19,842 in interest income, and \$51,982 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$92,867 and expenses were \$95,605. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District increased meal prices. The School Nutrition Fund had been running a deficit for a significant number of years. The District will increase meal prices again for the upcoming fiscal year in an effort to meet expenses.

Financial Analysis of the District's Funds

As previously noted, the C & M Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$408,161, up from last year's ending fund balances of \$348,118, due to increases in the PPEL fund and the SILO tax fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$117,247 to \$31,521, due in part to the negotiated salary and benefits settlement.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$112,027 in fiscal 2005 to \$153,872 in fiscal 2006. Tuckpointing repairs to the exterior of the Massena building were made with PPEL funds. The final portion of Debt Service Fund (\$18,713) was transferred to the PPEL fund. Additional repairs to the brick building in Massena will be made in fiscal 2007.
- The total Capital Projects, School Infrastructure and Local Option Sales tax (SILO) Fund balance increased from \$57,559 in fiscal 2005 to \$185,966 in fiscal 2006. SILO funds can be used for the same purposes as PPEL funds.

Proprietary Fund Highlights

The District is making strides in improving the financial situation of the School Nutrition Fund. A three-year increase in meal prices will hopefully enable the District to be at, at least, a break even point.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 46-48.

Legal Budgetary Highlights

The District's total actual receipts were \$95,024 less than the total budgeted receipts, a variance of 3.8%.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year, however, the District exceeded the non-instructional programs and other expenditures functional areas due to slightly higher than expected expenses in the Nutrition and PPEL funds.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had invested \$1,361,707, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$129,196.

The original cost of the District's capital assets was \$3,153,129. Governmental funds account for \$3,087,291 with the remainder of \$65,838 in the Proprietary, School Nutrition Fund.

Significant capital assets activities include the purchase of a suburban and a car, three copiers, replacement of the handicap doors, and computer equipment.

Long-Term Debt

At June 30, 2006, the District had long-term debt totaling \$10,233, for two early-retirement plans. More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has evaluated the condition of its transportation vehicles and determined that a suburban will be purchased in Fiscal Year 2007.
- Whole-grade sharing revenues and expenditures should be at the same level as Fiscal Year 2006.
- The District will continue to receive whole-grade sharing dollars in Fiscal Year 2007. The Sharing Agreement was renewed in fiscal 2006.
- Open enrollment-out expenditures should be at approximately the same level for fiscal 2007 as the previous year.
- Additional repairs to the brick work on the Massena building will be completed in fiscal 2007.
- The District, in FY 2007, is changing health insurance companies for employees which should result in a savings in premiums.
- The District will have only one administrator in FY 2007, resulting in a significant savings in administration costs.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Linda Edwards, District Secretary/Treasurer and Business Manager, C & M Community School District, PO Box 7, Massena, Iowa, 50853.

Basic Financial Statements

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 360,966	\$ 118	\$ 361,084
Receivables:			
Property tax:			
Current year	18,438	-	18,438
Succeeding year	793,725	-	793,725
Income surtax	55,239	-	55,239
Accounts	994	-	994
Due from other governments	31,186	376	31,562
Inventories	-	935	935
Restricted ISCAP assets (note 4):			
Investments	419,267	-	419,267
Accrued interest receivable	3,614	-	3,614
Capital assets, net of accumulated depreciation (note 5)	1,358,293	3,414	1,361,707
 Total assets	 3,041,722	 4,843	 3,046,565
<u>Liabilities</u>			
Salaries and benefits payable	658	-	658
ISCAP warrants payable (note 4)	419,000	-	419,000
ISCAP accrued interest payable (note 4)	3,385	-	3,385
ISCAP unamortized premium (note 4)	2,951	-	2,951
Deferred revenue:			
Succeeding year property tax	793,725	-	793,725
Other	310	-	310
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	3,232	-	3,232
Portion due after one year:			
Early retirement	7,001	-	7,001
 Total liabilities	 1,230,262	 -	 1,230,262

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets	\$ 1,358,293	\$ 3,414	\$ 1,361,707
Restricted for:			
Management levy	15,136	-	15,136
Physical plant and equipment levy	153,872	-	153,872
Other special revenue purposes	11,433	-	11,433
Capital projects	185,966	-	185,966
Unrestricted	86,760	1,429	88,189
Total net assets	\$ <u>1,811,460</u>	\$ <u>4,843</u>	\$ <u>1,816,303</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 1,090,262	\$ 198,092	\$ 141,964	\$ -
Special instruction	185,238	53,323	58,092	-
Other instruction	201,038	14,166	541	-
	<u>1,476,538</u>	<u>265,581</u>	<u>200,597</u>	<u>-</u>
Support services:				
Student services	2,554	-	-	-
Instructional staff services	105,668	-	-	-
Administration services	192,650	-	-	-
Operation and maintenance of plant services	251,173	1,325	-	-
Transportation services	145,005	2,630	-	-
	<u>697,050</u>	<u>3,955</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>7,324</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	31,563	-	-	-
AEA flowthrough	65,838	-	65,838	-
Depreciation (unallocated) *	48,107	-	-	-
	<u>145,508</u>	<u>-</u>	<u>65,838</u>	<u>-</u>
Total governmental activities	2,326,420	269,536	266,435	-
Business-Type Activities:				
Non-instructional programs:				
Food service operations	<u>95,605</u>	<u>47,313</u>	<u>45,515</u>	<u>-</u>
Total	\$ 2,422,025	\$ 316,849	\$ 311,950	\$ -

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (750,206)	\$ -	\$ (750,206)
(73,823)	-	(73,823)
(186,331)	-	(186,331)
(1,010,360)	-	(1,010,360)
(2,554)	-	(2,554)
(105,668)	-	(105,668)
(192,650)	-	(192,650)
(249,848)	-	(249,848)
(142,375)	-	(142,375)
(693,095)	-	(693,095)
(7,324)	-	(7,324)
(31,563)	-	(31,563)
-	-	-
(48,107)	-	(48,107)
(79,670)	-	(79,670)
(1,790,449)	-	(1,790,449)
-	(2,777)	(2,777)
(1,790,449)	(2,777)	(1,793,226)

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u>		<u>Business-Type</u>	<u>Total</u>	
<u>Activities</u>		<u>Activities</u>		
\$	720,893	\$	-	\$ 720,893
	98,384		-	98,384
	60,484		-	60,484
	124,236		-	124,236
	736,849		-	736,849
	19,842	39		19,881
	51,982	-		51,982
	<u>1,812,670</u>	39		<u>1,812,709</u>
	22,221	(2,738)		19,483
	<u>1,789,239</u>	7,581		<u>1,796,820</u>
\$	<u><u>1,811,460</u></u>	\$	<u><u>4,843</u></u>	\$ <u><u>1,816,303</u></u>

C & M COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 10,318	\$ 151,658	\$ 163,172	\$ 35,818	\$ 360,966
Receivables:					
Property tax:					
Current year	15,240	2,214	-	984	18,438
Succeeding year	720,795	35,023	-	37,907	793,725
Income surtax	55,239	-	-	-	55,239
Accounts	994	-	-	-	994
Due from other governments	8,392	-	22,794	-	31,186
Restricted ISCAP assets (note 4):					
Investments	419,267	-	-	-	419,267
Accrued interest receivable	3,614	-	-	-	3,614
Total assets	<u>\$ 1,233,859</u>	<u>\$ 188,895</u>	<u>\$ 185,966</u>	<u>\$ 74,709</u>	<u>\$ 1,683,429</u>

C & M COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities:					
Salaries and benefits payable	\$ 658	\$ -	\$ -	\$ -	658
ISCAP warrants payable (note 4)	419,000	-	-	-	419,000
ISCAP accrued interest payable (note 4)	3,385	-	-	-	3,385
ISCAP unamortized premium (note 4)	2,951	-	-	-	2,951
Deferred revenue:					
Succeeding year property tax	720,795	35,023	-	37,907	793,725
Other	55,549	-	-	-	55,549
Total liabilities	<u>1,202,338</u>	<u>35,023</u>	<u>-</u>	<u>37,907</u>	<u>1,275,268</u>
Fund balance:					
Unreserved:					
Reported in nonmajor Special Revenue Funds	-	-	-	36,802	36,802
Undesignated	31,521	153,872	185,966	-	371,359
Total fund balances	<u>31,521</u>	<u>153,872</u>	<u>185,966</u>	<u>36,802</u>	<u>408,161</u>
Total liabilities and fund balances	<u>\$ 1,233,859</u>	<u>\$ 188,895</u>	<u>\$ 185,966</u>	<u>\$ 74,709</u>	<u>\$ 1,683,429</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds	\$ 408,161
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,358,293
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	55,239
Long-term liabilities, including early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(10,233)</u>
Net assets of governmental activities	<u><u>\$ 1,811,460</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 732,093	\$ 98,324	\$ 124,236	\$ 43,707	\$ 998,360
Tuition	241,641	-	-	-	241,641
Other	28,117	9,773	4,171	17,438	59,499
State sources	912,401	60	-	27	912,488
Federal sources	91,724	-	-	-	91,724
Total revenues	2,005,976	108,157	128,407	61,172	2,303,712
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,086,647	-	-	7,370	1,094,017
Special instruction	185,238	-	-	-	185,238
Other instruction	183,719	-	-	17,319	201,038
	1,455,604	-	-	24,689	1,480,293
Support services:					
Student services	2,554	-	-	-	2,554
Instructional staff services	86,447	19,221	-	-	105,668
Administration services	201,901	-	-	7,200	209,101
Operation and maintenance of plant services	184,735	37,641	-	22,233	244,609
Transportation services	92,584	35,028	-	8,900	136,512
	568,221	91,890	-	38,333	698,444
Non-instructional programs	3,404	-	-	3,920	7,324
Other expenditures:					
Facilities acquisition	-	31,563	-	-	31,563
AEA flowthrough	65,838	-	-	-	65,838
	65,838	31,563	-	-	97,401
Total expenditures	2,093,067	123,453	-	66,942	2,283,462
Excess (deficiency) of revenues over (under) expenditures	(87,091)	(15,296)	128,407	(5,770)	20,250

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):					
Sale of equipment	\$ 1,365	\$ -	\$ -	\$ -	1,365
Sale of real property	-	38,428	-	-	38,428
Interfund transfers in	-	18,713	-	-	18,713
Interfund transfers out	-	-	-	(18,713)	(18,713)
Total other financing sources (uses)	1,365	57,141	-	(18,713)	39,793
Net change in fund balances	(85,726)	41,845	128,407	(24,483)	60,043
Fund balances beginning of year	117,247	112,027	57,559	61,285	348,118
Fund balances end of year	\$ 31,521	\$ 153,872	\$ 185,966	\$ 36,802	\$ 408,161

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 60,043

Amounts reported for governmental activities in the Statement of Activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 77,691	
Depreciation expense	<u>(127,931)</u>	(50,240)

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 5,136

Some expenses reported in the Statement of Activities, such as early retirement, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 7,282

Change in net assets of governmental activities \$ 22,221

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2006

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 118
Due from other governments	376
Inventories	935
Capital assets, net of accumulated depreciation	<u>3,414</u>
Total assets	<u>4,843</u>
Liabilities	
None	<u>-</u>
Net Assets	
Invested in capital assets	3,414
Unrestricted	<u>1,429</u>
Total net assets	<u>\$ 4,843</u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>47,313</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	39,436
Benefits	10,727
Supplies	44,177
Depreciation	<u>1,265</u>
	<u>95,605</u>
Operating loss	<u>(48,292)</u>
Non-operating revenues:	
Interest on investments	39
Contributions	2,070
State sources	1,628
Federal sources	<u>41,817</u>
Total non-operating revenues	<u>45,554</u>
Change in net assets	(2,738)
Net assets beginning of year	<u>7,581</u>
Net assets end of year	\$ <u><u>4,843</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 47,184
Cash received from miscellaneous operating activities	129
Cash payments to employees for services	(50,163)
Cash payments to suppliers for goods or services	<u>(39,759)</u>
Net cash used by operating activities	<u>(42,609)</u>
Cash flows from non-capital financing activities:	
Contributions received	2,070
State grants received	1,252
Federal grants received	<u>37,787</u>
Net cash provided by non-capital financing activities	<u>41,109</u>
Cash flows from investing activities:	
Interest on investments	<u>39</u>
Net decrease in cash and cash equivalents	(1,461)
Cash and cash equivalents beginning of year	<u>1,579</u>
Cash and cash equivalents end of year	\$ <u><u>118</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (48,292)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,265
Commodities used	4,030
Decrease in inventories	<u>388</u>
Net cash used by operating activities	\$ <u><u>(42,609)</u></u>
Non-cash investing, capital and financing activities:	
During the year ended June 30, 2006, the District received \$4,030 of federal commodities.	

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ <u>24,044</u>	\$ <u>242</u>
Liabilities:		
Other payables	<u>-</u>	<u>242</u>
Net assets:		
Reserved for scholarships	\$ <u><u>24,044</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

C & M COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>704</u>
Deductions:	
None	<u>-</u>
Change in net assets	704
Net assets beginning of year	<u>23,340</u>
Net assets end of year	\$ <u><u>24,044</u></u>
See notes to financial statements.	

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

C & M Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through eight. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Cumberland and Massena, Iowa, and portions of the predominate agricultural territory in Cass and Adams Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, C & M Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. C & M Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cass County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue, Physical Plant and Equipment Levy Fund is used to account for the payment of capital and related expenditures for building improvements and certain types of equipment.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2006 will not be received by the District until December 2007. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable – Payroll and related expenses for hourly employees, which are payable in July, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2006.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2. Cash and Pooled Investments (continued)

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ <u><u>471,179</u></u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Physical Plant and Equipment Levy	Debt Service	\$ <u><u>18,713</u></u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2005-06B	1/26/2006	1/26/2007	\$ 174,607	\$ 3,538	\$ 174,000	\$ 3,325	\$ 1,087
2006-07A	6/28/2006	6/28/2007	244,660	76	245,000	60	1,864
Total			<u>\$ 419,267</u>	<u>\$ 3,614</u>	<u>\$ 419,000</u>	<u>\$ 3,385</u>	<u>\$ 2,951</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2006.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ <u>31,200</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>31,200</u>
Capital assets being depreciated:				
Buildings	2,295,646	-	10,000	2,285,646
Improvements other than buildings	37,202	-	-	37,202
Furniture and equipment	684,200	77,691	28,648	733,243
Total capital assets being depreciated	<u>3,017,048</u>	<u>77,691</u>	<u>38,648</u>	<u>3,056,091</u>
Less accumulated depreciation for:				
Buildings	1,265,856	47,913	10,000	1,303,769
Improvements other than buildings	33,717	194	-	33,911
Furniture and equipment	340,142	79,824	28,648	391,318
Total accumulated depreciation	<u>1,639,715</u>	<u>127,931</u>	<u>38,648</u>	<u>1,728,998</u>
Total capital assets being depreciated, net	<u>1,377,333</u>	<u>(50,240)</u>	<u>-</u>	<u>1,327,093</u>
Governmental activities capital assets, net	\$ <u>1,408,533</u>	\$ <u>(50,240)</u>	\$ <u>-</u>	\$ <u>1,358,293</u>

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 65,838 *	\$ -	\$ -	65,838
Less accumulated depreciation	61,159 *	1,265	-	62,424
Business-type activities capital assets, net	\$ <u>4,679</u>	\$ <u>(1,265)</u>	\$ <u>-</u>	<u>3,414</u>

* = The beginning balances of furniture and equipment and accumulated depreciation were decreased by \$115,586 to more accurately reflect capital assets on hand at July 1, 2005.

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular

\$ 6,192

Support services:

Administration

6,119

Operation and maintenance of plant services

10,964

Transportation

56,549

79,824

Unallocated depreciation

48,107

Total governmental activities depreciation expense

\$ 127,931

Business-type activities:

Food service operations

\$ 1,265

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	<u>Early Retirement</u>
Balance beginning of year	\$ 17,515
Additions	-
Reductions	<u>7,282</u>
Balance end of year	<u>\$ 10,233</u>
Due within one year	<u>\$ 3,232</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is equal to \$100 per month toward the cost of single health insurance coverage for eight years or until the retiree becomes eligible for Medicare, whichever is sooner.

At June 30, 2006, the District has obligations to two participants with a total liability of \$10,233. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$7,014. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$56,652, \$60,447, and \$61,864 respectively, equal to the required contributions for each year.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 8. Risk Management

C & M Community School District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, ISEBA converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$132,501.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

C & M Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$65,838 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

C & M COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund Required Supplementary Information Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
RECEIPTS:					
Local sources	\$ 1,284,423	\$ 49,422	\$ 1,333,845	\$ 1,345,938	\$ (12,093)
Intermediate sources	-	-	-	7,000	(7,000)
State sources	912,488	1,252	913,740	969,938	(56,198)
Federal sources	95,450	41,817	137,267	157,000	(19,733)
Total receipts	2,292,361	92,491	2,384,852	2,479,876	(95,024)
DISBURSEMENTS:					
Instruction	1,625,606	-	1,625,606	1,764,874	139,268
Support services	692,373	-	692,373	996,022	303,649
Non-instructional programs	7,324	93,952	101,276	99,226	(2,050)
Other expenditures	97,401	-	97,401	71,382	(26,019)
Total disbursements	2,422,704	93,952	2,516,656	2,931,504	414,848
Excess (deficiency) of receipts over (under) disbursements	(130,343)	(1,461)	(131,804)	(451,628)	319,824
Other financing sources, net	39,793	-	39,793	2,000	37,793
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(90,550)	(1,461)	(92,011)	(449,628)	357,617
Balance beginning of year	451,516	1,579	453,095	423,279	29,816
Balance end of year	\$ 360,966	\$ 118	\$ 361,084	\$ (26,349)	\$ 387,433

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 2,292,361	\$ 11,351	\$ 2,303,712
Expenditures	2,422,704	(139,242)	2,283,462
Net	(130,343)	150,593	20,250
Other financing sources (uses)	39,793	-	39,793
Beginning fund balances	451,516	(103,398)	348,118
Ending fund balances	<u>\$ 360,966</u>	<u>\$ 47,195</u>	<u>\$ 408,161</u>
	Proprietary Fund		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 92,491	\$ 376	\$ 92,867
Expenses	93,952	1,653	95,605
Net	(1,461)	(1,277)	(2,738)
Beginning net assets	1,579	6,002	7,581
Ending net assets	<u>\$ 118</u>	<u>\$ 4,725</u>	<u>\$ 4,843</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, disbursements in the non-instructional programs and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

C & M COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 24,385	\$ 11,433	\$ 35,818
Receivables:			
Property tax:			
Current year	984	-	984
Succeeding year	37,907	-	37,907
Total assets	<u>\$ 63,276</u>	<u>\$ 11,433</u>	<u>\$ 74,709</u>
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 37,907	\$ -	\$ 37,907
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	25,369	11,433	36,802
Total liabilities and fund equity	<u>\$ 63,276</u>	<u>\$ 11,433</u>	<u>\$ 74,709</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2006

	Special Revenue		Debt	
	Management	Student	Service	Total
	Levy	Activity		
Revenues:				
Local sources:				
Local tax	\$ 43,707	\$ -	\$ -	\$ 43,707
Other	3,129	14,309	-	17,438
State sources	27	-	-	27
Total revenues	<u>46,863</u>	<u>14,309</u>	<u>-</u>	<u>61,172</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	7,370	-	-	7,370
Other instruction	-	17,319	-	17,319
Support services:				
Administration services	7,200	-	-	7,200
Operation and maintenance of plant services	22,233	-	-	22,233
Transportation services	8,900	-	-	8,900
Non instructional programs	3,920	-	-	3,920
Total expenditures	<u>49,623</u>	<u>17,319</u>	<u>-</u>	<u>66,942</u>
Deficiency of revenues under expenditures	(2,760)	(3,010)	-	(5,770)
Other financing uses:				
Interfund transfers out	-	-	(18,713)	(18,713)
Deficiency of revenues under expenditures and other financing uses	(2,760)	(3,010)	(18,713)	(24,483)
Fund balances beginning of year	<u>28,129</u>	<u>14,443</u>	<u>18,713</u>	<u>61,285</u>
Fund balances end of year	<u>\$ 25,369</u>	<u>\$ 11,433</u>	<u>\$ -</u>	<u>\$ 36,802</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Beginning of Year	Revenues	Expenditures	End of Year
Athletics	\$ 40	\$ -	\$ 28	\$ 12
Cheerleaders	473	-	-	473
Elementary	2,944	2,594	3,815	1,723
Middle School	279	2,173	2,322	130
Special	7,820	8,197	8,751	7,266
Future Farmers of America	586	-	390	196
Band	1,371	540	849	1,062
Vocal	339	662	1,001	-
Interest	591	143	163	571
	<u>\$ 14,443</u>	<u>\$ 14,309</u>	<u>\$ 17,319</u>	<u>\$ 11,433</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2006

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of Year</u>
Assets				
Cash	\$ <u>315</u>	\$ <u>195</u>	\$ <u>268</u>	\$ <u>242</u>
Liabilities				
Other payables	\$ <u>315</u>	\$ <u>195</u>	\$ <u>268</u>	\$ <u>242</u>

See accompanying independent auditor's report.

C & M COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 998,360	\$ 897,274	\$ 938,295	\$ 913,613
Tuition	241,641	230,603	205,089	58,211
Other	59,499	61,589	97,371	125,141
Intermediate sources	-	-	5,357	-
State sources	912,488	928,912	783,182	768,035
Federal sources	91,724	104,129	105,274	94,638
Total revenues	<u>\$ 2,303,712</u>	<u>\$ 2,222,507</u>	<u>\$ 2,134,568</u>	<u>\$ 1,959,638</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,094,017	\$ 1,089,500	\$ 1,124,215	\$ 761,743
Special instruction	185,238	176,453	173,278	193,181
Other instruction	201,038	193,656	193,682	292,783
Support services:				
Student services	2,554	627	2,312	19,771
Instructional staff services	105,668	108,022	47,121	43,715
Administration services	209,101	242,368	238,009	254,806
Operation and maintenance of plant services	244,609	266,739	247,130	324,464
Transportation services	136,512	229,587	139,228	103,958
Central and other support services	-	-	1,076	-
Non-instructional programs	7,324	2,287	3,352	5,407
Other expenditures:				
Facilities acquisition	31,563	1,033	-	-
AEA flowthrough	65,838	66,248	65,950	69,934
Total expenditures	<u>\$ 2,283,462</u>	<u>\$ 2,376,520</u>	<u>\$ 2,235,353</u>	<u>\$ 2,069,762</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
C & M Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of C & M Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered C & M Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether C & M Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about C & M Community School District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of C & M Community School District and other parties to whom C & M Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of C & M Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
August 3, 2006

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal and the recording, preparing and signing of checks were all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will investigate available alternatives and implement as soon as possible. However, due to staff size it will be difficult to make any adjustments to the current system. We have incorporated the superintendent's assistance into the control system whenever possible.

Conclusion – Response accepted.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget – Disbursements for the year ended June 30, 2006, exceeded the amounts budgeted in the non-instructional programs and other expenditures functions.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend our budget before disbursements exceed the budget.

Conclusion – Response accepted.

- II-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- II-C-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Brian Bower, Board Member Owner of Bower Welding	Repairs, Supplies	\$ 10

In accordance with an Attorney General’s opinion dated November 9, 1976, the transaction above does not appear to represent a conflict of interest.

- II-E-06 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

- II-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

C & M COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting (continued):

- II-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted. However, the interest rates on two time certificates of deposit did not meet the minimum rate of interest set by the State rate setting committee.
- Recommendation – The District should be aware of current allowable rates to ensure that at least the minimum rate is received for all investments. The certificate of deposit, when renewed, should be renewed at a rate of interest that conforms with current rates for public funds on the renewal date.
- Response – The bank will be correcting the interest rate. We will make sure that the certificate of deposit is renewed at an allowable rate.
- Conclusion – Response accepted.
- II-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

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